



3651-01-P

COMMODITY FUTURES TRADING COMMISSION

17 CFR Part 30

RIN 3038-AE86

Foreign Futures and Options Transactions

AGENCY: Commodity Futures Trading Commission.

ACTION: Final rule.

SUMMARY: The Commodity Futures Trading Commission (Commission) is issuing a final rule that amends its regulations governing the offer and sale of foreign futures and options to customers located in the U.S. The amended regulation codifies the process by which the Commission may terminate exemptive relief issued pursuant to its regulations.

DATES: The rule is effective [INSERT DATE OF PUBLICATION IN FEDERAL REGISTER].

FOR FURTHER INFORMATION CONTACT: Joshua Sterling, Director, jsterling@cftc.gov; Frank Fisanich, Chief Counsel, ffisanich@cftc.gov; or Andrew Chapin, Associate Chief Counsel, achapin@cftc.gov, Division of Swap Dealer and Intermediary Oversight, Commodity Futures Trading Commission, 1155 21st Street NW, Washington, DC 20581, (202) 418-5000.

SUPPLEMENTARY INFORMATION:

I. Background

Part 30 of the Commission's regulations governs the offer and sale of futures and option contracts traded on or subject to the regulations of a foreign board of trade (foreign

futures and options) to customers located in the U.S.¹ These regulations set forth requirements for foreign firms acting in the capacity of a futures commission merchant (FCM), introducing broker, commodity pool operator and commodity trading adviser with respect to the offer and sale of foreign futures and options to U.S. customers and are designed to ensure that such products offered and sold in the U.S. are subject to regulatory safeguards comparable to those applicable to transactions entered into on designated contract markets. Pursuant to § 30.10(a), persons located outside the U.S. and subject to a comparable regulatory structure in the jurisdiction in which they are located may seek an exemption from certain of the requirements under part 30 of the Commission's regulations based upon compliance with the regulatory requirements of the person's home jurisdiction.²

A petition for exemption pursuant to § 30.10(a) typically is filed on behalf of persons located and doing business outside the U.S. that seek access to U.S. customers by: (1) a governmental agency responsible for implementing and enforcing the foreign regulatory program; or (2) a self-regulatory organization (SRO) of which such persons are members. A petitioner who seeks an exemption pursuant to § 30.10(a) must set forth with particularity the comparable regulations applicable in the jurisdiction in which that person is located. The Commission may, in its discretion, grant such an exemption if it is demonstrated to the Commission's satisfaction that the exemption is not otherwise contrary to the public interest or to the purposes of the provision from which exemption is sought. Appendix A to part 30, Interpretative Statement With Respect to the Commission's Exemptive Authority Under § 30.10 of Its Rules (appendix A), generally sets forth the elements the Commission will

¹ 17 CFR part 30. The Commission promulgated part 30 of its regulations in 1987. *See* Foreign Futures and Foreign Options Transactions, 52 FR 28980 (Aug. 5, 1987). The Commission promulgated these regulations pursuant to Section 2(b)(2)(A) of the Commodity Exchange Act (CEA), 7 U.S.C. 6(b)(2)(A).

² 17 CFR 30.10(a).

evaluate in determining whether a particular regulatory program may be found to be comparable for purposes of exemptive relief pursuant to § 30.10,³ and specifically states that in considering an exemption request, the Commission will take into account the extent to which United States persons or contracts regulated by the Commission are permitted to engage in futures-related activities or be offered in the country from which an exemption is sought.⁴

If the Commission determines that relief pursuant to § 30.10(a) is appropriate, the Commission issues an Order to the person that filed the petition for relief (typically the foreign regulator or SRO) that sets forth conditions governing such relief. After the relief is granted to the foreign regulator or SRO, persons under its regulatory oversight and located and doing business outside the U.S. may solicit or accept orders directly from U.S. customers for foreign futures or options transactions and, in the case of a person acting in the capacity of an FCM, accept customer money or other property, without registering under the CEA in the appropriate capacity.⁵ The Commission reserves the right within each Order issued pursuant to § 30.10(a) to condition, modify, suspend, terminate, or otherwise restrict the exemptive relief granted, as appropriate, on its own motion.

II. The Proposal

The Commission published for public comment in the *Federal Register* on July 5, 2019 a notice of proposed rulemaking (the Proposal) proposing amendments to regulation § 30.10.⁶ As noted above, § 30.10(a) sets forth the process by which any person adversely affected by any requirement set forth in part 30 may file a petition with the Commission seeking an exemption. While § 30.10(a) provides that the Commission may grant an exemption subject to

³ 52 FR 28990, 29001.

⁴ 17 CFR part 30, appendix A.

⁵ The term “futures commission merchant” is defined in §1.3, 17 CFR 1.3.

⁶ See Foreign Futures and Options Transactions, 84 FR 32105 (Jul. 5, 2019).

any terms or conditions it may find appropriate, the regulation does not provide a specific course of action should the Commission determine that exemptive relief is no longer warranted. Accordingly, the Commission proposed to amend § 30.10 by adding a new paragraph (c) to codify the process by which the Commission may terminate exemptive relief issued pursuant to paragraph (a).

Specifically, the Proposal provided that the Commission may terminate exemptive relief, after appropriate notice and an opportunity to respond, under certain circumstances. First, the Commission could terminate the relief should it determine that there has been a material change or omission in the facts and circumstances pursuant to which relief was granted that demonstrate that the standards set forth in appendix A forming the basis for granting such relief are no longer met. Second, the Commission could terminate relief should it determine that the continued exemptive relief would be contrary to the public interest or inconsistent with the purposes of the regulation § 30.10 exemption. For example, in considering whether exemptive relief continues to be warranted, the Commission could take into account any material changes in the applicable regulatory regime, including a lack of comity relating to the execution or clearing of any commodity interest⁷ subject to the Commission's exclusive jurisdiction.⁸ Third, the Commission could terminate relief should it determine that information-sharing arrangements no longer adequately support exemptive relief.

The Proposal also provided any affected person with an appropriate opportunity to respond to any notice by the Commission issued pursuant to § 30.10(c)(1). The affected

⁷ The term "commodity interest" includes, among other things, any contract for the purchase or sale of a commodity for future delivery, or any swap as defined in the CEA. *See* 17 CFR 1.3.

⁸ The Commission's exclusive jurisdiction is set forth in 7 U.S.C. 2(a).

person is the foreign regulator, SRO, or other entity that filed the original petition for relief.⁹

The Commission proposed that the timing for any opportunity to respond would take into account the exigency of circumstances. The Commission noted that it is able to suspend immediately the relief set forth in any Order issued pursuant to § 30.10(a) should exigent circumstances occur. Thus, the Proposal stated that the affected party would have a period of 30 business days, or such time as the Commission permits in writing to respond to the notification. This time period could be less than 30 business days depending on the exigency of the circumstances and other relevant considerations.

Should the Commission ultimately determine to terminate any exemptive relief, it proposed that the Commission would be required to notify the affected person in writing setting forth the particular reasons why relief is no longer warranted and issue an Order terminating exemptive relief to be published in the *Federal Register*. Proposed § 30.10(c)(2)-(4) provided further that any Order terminating exemptive relief would set forth an appropriate time frame for the orderly transfer or close out of any accounts held by U.S. customers impacted by such an Order. Finally, proposed § 30.10 (c)(5) provided that any person whose relief has been terminated may re-apply for exemptive relief 360 days after the issuance of the relevant Order by the Commission if the deficiency causing the revocation has been cured or relevant facts and circumstances have changed.

III. Comments

The Commission received three comment letters on the Proposal from the Intercontinental Exchange, Inc. (ICE); the Futures Industry Association (FIA); and the CME

⁹ Paragraph (a) of the current regulation states that any person adversely affected by any requirement of this part may file a petition. 17 CFR 30.10(a).

Group Inc. (CME Group).¹⁰ Each of the commenters commended the long-standing success of the Commission's program for regulatory deference set forth in § 30.10 and generally supported the Proposal to provide greater transparency to the process by which the Commission may terminate exemptive relief.

Both CME Group and FIA urged the Commission to adhere to the standard set forth in appendix A regarding principles of regulatory comity. In particular, these commenters noted that the Commission, in consideration of any petition submitted pursuant to § 30.10(a), should take into account the extent to which U.S. persons or contracts regulated by the Commission are permitted to engage in futures-related activities or be offered in the country from which an exemption is sought. Both commenters recognized that complementary regulatory programs of mutual recognition across jurisdictional boundaries reduce artificial barriers to market access, encourage liquidity, promote price discovery, and mitigate market fragmentation. Otherwise, market intermediaries will be required to comply with more costly, overlapping regulation that fail to take into account the market structure and participants in local markets.

With respect to specific rule text, both ICE and FIA requested that the final regulation provide all market participants – and not simply the foreign regulator or SRO to which the Order was issued – with notice and opportunity to comment on any notification by the Commission of its intention to terminate exemptive relief. Both commenters noted that market intermediaries taking advantage of such relief would be better positioned to plan for, and potentially mitigate, any possible business and market disruptions resulting from the termination of relief with formal notice from the Commission.

IV. Final Rule

¹⁰ The comment letters can be found at: <https://comments.cftc.gov/PublicComments/CommentList.aspx?id=3002>.

The Commission has considered the comments from ICE, FIA, and CME Group and is adopting § 30.10(c) as proposed, with two modifications. The Commission agrees with comments that market intermediaries taking advantage of such relief and other market participants impacted by the potential termination of relief may provide helpful insight to the Commission as it considers whether termination is appropriate. Accordingly, the Commission is adopting a change to proposed § 30.10(c)(2) to provide parties other than the affected person with notice of and opportunity to comment on any potential termination of relief.

Revised § 30.10(c)(2) will require the Commission to publish on its website any notice of an intention to terminate relief. The Commission expects that the notice would be published on the website at substantially the same time that it is sent to the affected person, subject to any logistical or similar considerations. In this manner, market intermediaries – and derivatively, their U.S. customers – will be prompted to communicate with the Commission regarding any issues relevant to the potential termination of relief, including those regarding the potential transfer of customer accounts and property. The Commission also is adopting a corresponding change to § 30.10(c)(3) to provide persons other than the affected party with the opportunity to respond to the notification in writing no later than 30 business days following the publication on the Commission’s website of the notification, or at such time as the Commission permits in writing (which could be more or less than 30 business days, depending on the exigency of the circumstances and other relevant considerations).

V. Related Matters

A. *Regulatory Flexibility Act*

The Regulatory Flexibility Act (RFA) requires that Federal agencies consider whether the rules that they issue will have a significant economic impact on a substantial number of

small entities and, if so, to provide a regulatory flexibility analysis regarding the impact on those entities. Each Federal agency is required to conduct an initial and final regulatory flexibility analysis for each rule of general applicability for which the agency issues a general notice of proposed rulemaking.¹¹

As noted in the Proposal, this rule would affect foreign members of foreign boards of trade who perform the functions of an FCM. While the RFA may not apply to foreign entities,¹² the Commission previously determined that FCMs should be excluded from the definition of small entities.¹³ Accordingly, the Chairman, on behalf of the Commission, hereby certifies, pursuant to 5 U.S.C. 605(b), that the final regulations will not have a significant impact on a substantial number of small entities.

B. Paperwork Reduction Act

The Paperwork Reduction Act of 1995 (PRA) imposes certain requirements on Federal agencies, including the Commission, in connection with their conducting or sponsoring any collection of information, as defined by the PRA. Under the PRA, an agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid control number from the Office of Management and Budget (OMB). The final regulations adopted would result in a collection of information within the meaning of the PRA, as discussed below. Therefore, the Commission is submitting the Final Rules to OMB for approval.

¹¹ See U.S.C. 601 *et seq.*

¹² See 13 CFR 121.105 (noting that a small business is a business entity organized for profit, with a place of business located in the U.S., and which operates primarily within the U.S., or which makes a significant contribution to the U.S. economy through payment of taxes or use of American products, materials or labor).

¹³ See, e.g., Policy Statement and Establishment of Definitions of “Small Entities” for purposes of the Regulatory Flexibility Act, 47 FR 18618, 18619 (Apr. 30, 1982).

As discussed in the Proposal, final § 30.10(c)(2) will result in a collection of information within the meaning of the PRA, as discussed below. This final rule contains a collection of information for which the Commission has not previously received control numbers from the Office of Management and Budget (OMB). As noted in the Proposal, the Commission has submitted to OMB an information collection request to obtain an OMB control number for the collection contained in this proposal in accordance with 44 U.S.C. 3507(d) and 5 CFR 1320.11.

Specifically, final § 30.10(c)(3) provides any party affected by the Commission's determination to terminate relief with the opportunity to respond to the notification in writing no later than 30 business days following the receipt of the notification, or at such time as the Commission permits in writing. The Commission estimates that, if adopted, it would receive one response to this collection resulting in eight burden hours annually.

In the Proposal, the Commission invited the public and other Federal agencies to comment on any aspect of the proposed information collection requirements discussed therein.¹⁴ The Commission did not receive any such comments.

C. Cost-Benefit Considerations

1. Summary

Section 15(a) of the CEA¹⁵ requires the Commission to consider the costs and benefits of its actions before promulgating a regulation under the CEA or issuing certain orders. The baseline for this consideration of costs and benefits is the current status, where the Commission has not codified the procedures by which the Commission may terminate

¹⁴ Proposal, 84 FR at 32107.

¹⁵ 7 U.S.C. 19(a).

exemptive relief issued pursuant to § 30.10(a). As noted in the Proposal, the Commission has not yet terminated such relief, so the Commission has not yet implemented a procedure for terminating such exemptions. Moreover, the Commission has limited relevant or useful quantitative data to assess the potential costs and benefits of the final regulation § 30.10(c). Accordingly, the Commission generally considered the costs and benefits of final regulation § 30.10(c) in qualitative terms. The Commission invited comment on its preliminary consideration of the costs and benefits associated with the proposed changes to § 30.10,¹⁶ and received no such comments.

As a general matter, final § 30.10(c) will inform the public, affected persons and market participants of the basis on which the Commission may terminate exemptive relief pursuant to § 30.10(a) and establishing a process whereby an affected party would first be notified and given an opportunity to respond before the Commission would take any action. The affected party will benefit from the clear process set forth in the final regulation. The affected person will only incur costs in connection with the final regulation to the extent that the Commission identified a basis for terminating the exemption and notified the party of that basis. Similarly, market participants and other interested members of the public would incur costs in connection with responding to the posting of the notice on the Commission's web site. Those costs would include reviewing and responding to the notification, which the Commission believes would vary depending on the circumstances, including the stated basis for termination. As stated above, the Commission believes that 30 days, or such additional or less time as the Commission may permit in writing due to any exigent circumstances, will be sufficient for the affected person and other interested parties to develop a response while

¹⁶ *Id.*

allowing the Commission to take timely action to consider their interests.

The Commission requested comment on the potential costs and benefits of proposed § 30.10(c), including, where possible, quantitative data, and on any alternative proposals that might achieve the objectives of the proposed regulation, and the costs and benefits associated with any such alternatives.¹⁷ The Commission did not receive any such comments.

2. Section 15(a) Factors

Section 15(a) specifies that the costs and benefits shall be evaluated in light of five broad areas of market and public concern: (1) Protection of market participants and the public; (2) efficiency, competitiveness, and financial integrity of the futures markets; (3) price discovery; (4) sound risk management practices; and (5) other public interest considerations.

The Commission is considering the costs and benefits of these rules in light of the specific provisions of Section 15(a) of the CEA:

a. *Protection of Market Participants and the Public.* Section 15(a)(2)(A) of the CEA requires the Commission to evaluate the costs and benefits of a proposed regulation in light of protection of market participants and the public. The final regulations will benefit affected persons, market participants and the public by setting forth a clear procedure for the Commission's termination of exemptive relief issued pursuant to § 30.10(a). The final regulations will provide affected persons, market participants and the public with a reasonable timeframe to communicate any concerns to the Commission and, if necessary, for the orderly transfer of any accounts held by U.S. customers impacted by an order terminating relief.

¹⁷ Proposal, 84 FR 32108.

b. *Efficiency, Competitiveness, and Financial Integrity of Markets.* Section 15(a)(2)(B) of the CEA requires the Commission to evaluate the costs and benefits of a proposed regulation in light of efficiency, competitiveness, and financial integrity considerations. The Commission has not identified a specific effect on the efficiency and financial integrity of markets as a result of the proposed regulations. There may be a minor impact from termination of an exemption on the competitiveness of futures markets. Foreign futures and options may compete directly or indirectly with contracts listed on DCMs. Due to legal restrictions in foreign jurisdictions, the only way that U.S. customers may access certain foreign contracts may be through an exempt foreign firm. The termination of any exemptive relief therefore may reduce the available options for U.S. market participants.

c. *Price Discovery.* Section 15(a)(2)(C) of the CEA requires the Commission to evaluate the costs and benefits of a proposed regulation in light of price discovery considerations. The Commission believes that the final regulations will not have any significant impact on price discovery.

d. *Sound Risk Management Practices.* Section 15(a)(2)(D) of the CEA requires the Commission to evaluate the costs and benefits of a proposed regulation in light of sound risk management practices. The Commission believes that the final regulations will not have a large impact on the risk management practices of the futures and options industry. However, to the extent that having a transparent process for terminating exemptions issued to foreign regulatory or self-regulatory organizations on behalf of individual firms may encourage an increased offer and sale of contracts that more closely match the hedging needs of particular U.S. market participants, the practice of sound risk management might be improved slightly.

e. *Other Public Interest Considerations.* Section 15(a)(2)(E) of the CEA requires the Commission to evaluate the costs and benefits of a proposed regulation in light of other public considerations. The Commission believes that having a transparent process for terminating an exemption from registration will, in the event that the Commission believes such a termination may be warranted, provide an appropriate notice and opportunity to comment to the public, affected persons, exempt § 30.10 firms, and market participants who may be affected by the termination of an order of § 30.10 exemption.

3. *Antitrust Considerations*

Section 15(b) of the CEA requires the Commission to take into consideration the public interest to be protected by the antitrust laws and endeavor to take the least competitive means of achieving the objectives of the CEA in issuing any order or adopting any Commission regulation. The Commission has determined that the final amendments to § 30.10 have no anticompetitive effects. The final regulation is a procedural rule that will not cause a change in the behavior that would alter the level playing fields of regulated entities.

List of Subjects in 17 CFR Part 30

Consumer protection, Fraud.

For the reasons set forth in the preamble, the Commodity Futures Trading Commission amends 17 CFR part 30 as follows:

PART 30 – FOREIGN FUTURES AND OPTIONS TRANSACTIONS

1. The authority citation for part 30 continues to read as follows:

Authority: 7 U.S.C. 1a, 2, 6, 6c, and 12a, unless otherwise noted.

2. Add paragraph (c) to § 30.10 to read as follows:

§ 30.10 Petitions for exemption.

* * * * *

(c)(1) The Commission may, in its discretion and upon its own initiative, terminate the exemptive relief granted to any person pursuant to paragraph (a) of this section, after appropriate notice and an opportunity to respond, if the Commission determines that:

(i) There is a material change or omission in the facts and circumstances pursuant to which relief was granted that demonstrate that the standards set forth in appendix A to this part forming the basis for granting such relief are no longer met; or

(ii) The continued effectiveness of any such exemptive relief would be contrary to the public interest or inconsistent with the purposes of the exemption under paragraph (a) of this section; or

(iii) The arrangements in place for the sharing of information with the Commission do not warrant continuation of the exemptive relief granted.

(2) The Commission shall provide written notification to the affected party of its intention to terminate an exemption pursuant to paragraph (a) of this section and the basis for that intention. Such written notification also shall be published prominently on the Commission's website.

(3) The affected party may respond to the notification in writing no later than 30 business days following the receipt of the notification, or at such time as the Commission permits in writing. Any other person may respond to the notification in writing no later than 30 business days following the publication on the Commission's website of the written notice issued to the affected party, or at such time as the Commission permits in writing.

(4) If, after providing any affected person appropriate notice and opportunity to respond, the Commission determines that relief pursuant to paragraph (a) of this section is no longer warranted, the Commission shall notify the person of such determination in writing, including the particular reasons why relief is no longer warranted, and issue an Order Terminating Exemptive Relief. Any Order Terminating Exemptive Relief shall provide an appropriate timeframe for the orderly transfer or close out of any accounts held by U.S. customers impacted by such an Order.

(5) Any person whose relief has been terminated may apply for exemptive relief 360 days after the issuance of the Order Terminating Exemptive Relief if the deficiency causing the revocation has been cured or relevant facts and circumstances have changed.

Issued in Washington, D.C., on March 9, 2020, by the Commission.

Robert Sidman,

Deputy Secretary of the Commission

NOTE: The following appendix will not appear in the Code of Federal Regulations.

Appendix to Foreign Futures and Options Transactions—Commission Voting Summary

On this matter, Chairman Tarbert and Commissioners Quintenz, Behnam, Stump, and Berkovitz voted in the affirmative. No Commissioner voted in the negative.

[FR Doc. 2020-05097 Filed: 3/17/2020 8:45 am; Publication Date: 3/18/2020]